

Received & Inspected
Congress of the United States
Washington, DC 20515

FCC Mail Room

April 2, 2014

3/18

The Honorable Tom Wheeler
Chairman
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Dear Chairman Wheeler:

On March 20, the FCC announced in a public notice that the "rate floor", which determines the rate small rural carriers charge to customers for voice services, could increase from \$14.00 to \$20.46 as early as this summer in the absence of further FCC action. As with any government price control, the unfortunate result will be consumer harm and market distortions completely contrary to the desired outcomes.

You addressed the issue during a recent hearing of the House Financial Services and General Government Appropriations subcommittee by stating that the FCC may delay the initial date and phase-in the full rate increase. While your prompt response to a scenario that could immediately threaten local service in rural areas is appreciated, we are concerned about the negatives impacts of the rate floor on rural consumers more broadly than just this most recent and drastic rate increase.

Echoing Commissioner Pai's recent testimony to the Senate Financial Services and General Government Appropriations subcommittee, the rate floor mechanism, in effect, offers certain rural telecom companies money to raise customers' phone bills, with the price increases matched dollar-for-dollar from the federal universal service fund. This perverse incentive structure is negatively impacting rural customers and is skewing the business costs of investing in the provision of rural service.

For instance, under the FCC's *Universal Service Transformation Order of 2011* a company whose rural customers decline voice service, perhaps as a result of a sudden price spike, would be challenged by internal cost decisions when exploring the economics of deploying and servicing a broadband network to rural areas. This, in turn, would lead to either higher prices for consumers choosing only broadband service or a business' decision to leave the market altogether. Clearly, the effect of this policy is starkly at odds with the FCC's stated desire of encouraging the IP evolution.

Broadband is crucial to rural economic activity, healthcare, and public safety. At the same time, many rural Arkansans still heavily rely on local voice service. We must ensure that federal policies do not disproportionately impact the ability of businesses to offer either of those services. More importantly, we should not unfairly burden consumers who choose to live in rural parts of the country.

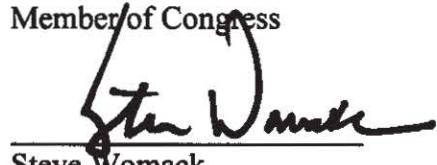
Sincerely,



Tom Cotton
Member of Congress



Rick Crawford
Member of Congress



Steve Womack
Member of Congress



John Boozman
United States Senator



Tim Griffin
Member of Congress



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

April 22, 2014

The Honorable Tom Cotton
U.S. House of Representatives
415 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Cotton:

Thank you for your letter expressing concerns on the implementation of the urban rate floor. I appreciate your views and will ensure that your letter will be included in the record of the proceeding and considered as part of the Commission's review.

In the 2011 *USF/ICC Transformation Order*, the Commission unanimously adopted reforms to make universal service a fairer system for all consumers and businesses. The *Order* includes a phase-out of excessive subsidies for basic phone service, which allowed some phone companies to charge their customers as little as \$5 a month while average urban, suburban, and even some other rural consumers, were paying over three times that amount. The Commission determined it was inappropriate to use limited federal high-cost support to subsidize local rates beyond what is necessary to ensure reasonable comparability between urban and suburban rates and rural rates, as required by Congress. The reforms gradually eliminate these excessive subsidies to level the playing field for all consumers and contain the cost of the program, which is funded by universal service fees paid by consumers.

While the Commission's rules do not require carriers to raise their local rates, I recognize there are concerns over potentially sizable rate increases and the possible difficulty some carriers may experience in making any rate adjustments at state level in a short period of time. To address these concerns, as I indicated during recent House and Senate Appropriations hearings, I have proposed to my fellow Commissioners that we delay the implementation of any universal service support reductions to provide carriers with additional time to consider whether they wish to make any rate changes and to enable them to phase in any changes over a longer period of time. This will allow implementation of the Commission's statutory obligation to ensure reasonably comparable rates. These proposed recommendations are included in an Order currently on circulation for consideration for the Commission's April Open Meeting.

I appreciate your interest in this matter. Please let me know if I can be of any further assistance.

Sincerely,

Tom Wheeler



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WASHINGTON

OFFICE OF
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April 22, 2014

The Honorable Rick Crawford
U.S. House of Representatives
1711 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Crawford:

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Tom Wheeler



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OFFICE OF
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April 22, 2014

The Honorable Tim Griffin
U.S. House of Representatives
1232 Longworth House Office Building
Washington, D.C. 20515

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Tom Wheeler



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OFFICE OF
THE CHAIRMAN

April 22, 2014

The Honorable Steve Womack
U.S. House of Representatives
1119 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Womack:

Thank you for your letter expressing concerns on the implementation of the urban rate floor. I appreciate your views and will ensure that your letter will be included in the record of the proceeding and considered as part of the Commission's review.

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